

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DOWNSTREAM, INC. FOR)
AN ADJUSTMENT OF RATES PURSUANT TO) CASE NO.
THE ALTERNATIVE RATE FILING PROCEDURE) 2006-00195
FOR SMALL UTILITIES)

ORDER

On May 10, 2006, Downstream, Inc. ("Downstream") filed its application for Commission approval of proposed sewer service rates. Commission Staff, having performed a limited financial review of Downstream's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 16th day of August, 2006.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
DOWNSTREAM, INC.
CASE NO. 2006-00195

Pursuant to a request by Downstream, Inc. ("Downstream") for assistance with the preparation of a rate application to adjust sewer service rates, Commission Staff ("Staff") performed a limited financial review of Downstream's test year operations, the calendar year ended December 31, 2005. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of the review, Staff assisted Downstream in the development and preparation of an application to adjust sewer service rates. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. Attachment A of the application included a pro forma income statement and revenue requirement and rate calculation worksheets. The monthly flat rate per customer calculated in the application was \$55.85, a \$28.34 or 103 percent increase over the current flat rate of \$27.51.

On May 10, 2006, Downstream filed the Staff assisted rate application with no revisions to the Commission for consideration. Staff is hereby adopting the contents of the application as its recommendation in this report as if fully set out herein. Eddie Beavers is responsible for all revenue adjustments and calculation of the proposed

rates. Scott Lawless is responsible for the determination of the revenue requirement. Based on the information included in Downstream's application, Staff is of the opinion that the rates proposed by Downstream, as shown in Attachment A of this report, are reasonable and should be approved by this Commission.

Signatures

Prepared by: Jack Scott Lawless, CPA
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Eddie Beavers
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2006-00195
STAFF'S RECOMMENDED RATES

Sewer Service Monthly Flat Rate

55.85